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In the Supreme Court of the United States

OCTOBER TERM, 1964

No. 210

BERNARD E. BERLENBACH also called BARNEY BERLENBACH and doing business under the fictitious name of SKI-FREE COMPANY,

Petitioner,

vs.

ANDERSON AND THOMPSON SKI CO., INC., a corporation,

Respondent.

Petition for a Writ of Certiorari

To the United States Court of Appeals
for the Ninth Circuit

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BERNARD E. BERLENBACH also called BARNEY BERLENBACH and doing business under the fictitious name of SKI-FREE COMPANY,

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vs.

ANDERSON AND THOMPSON SKI CO., INC., a corporation,

Respondent.

Petition for a Writ of Certiorari

To the United States Court of Appeals for the Ninth Circuit

Petitioner prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Ninth Circuit entered in the above-entitled case on March 25, 1964, a copy of said judgment being appended hereto as Appendix A.

CITATIONS TO OPINIONS BELOW

The opinion of the United States Court of Appeals for the Ninth Circuit is reported at 329 F.2nd 782 and at 141 USPQ 84, copy of said opinion being appended hereto as Appendix B.

The District Court did not render a written opinion. The unreported findings of fact, conclusions of law and judgment of the District Court appear in the record on appeal in the Court of Appeals at pages 53 to 59 of Volume One of the Transcript of Record filed in this Court.

JURISDICTION

The date of the judgment of the Court of Appeals is March 25, 1964 and said judgment was entered on March 25, 1964. A timely petition for rehearing was filed and was denied on May 1, 1964.

Jurisdiction is conferred upon this Court to review the Judgment of the Court of Appeals by writ of certiorari by United States Code, Title 28, Section 1254 (1).

QUESTIONS PRESENTED

1. Whether, in the light of certain Supreme Court cases [*Standard Oil Co. of California v. United States*, 337 US 293, 69 S.Ct. 1051, 93 L.Ed. 1371 (1949); *Tampa Electric Co. v. Nashville Coal Co.*, 365 US 320, 81 S.Ct. 623, 5 L.Ed. 2nd 580 (1961); and *White Motor Co. v. U.S.* 327 US 253, 83 S.Ct. 696, 9 L.Ed. 2nd 738 (1963)]—which consistently hold that a contract between a manufacturer and a dealer or distributor, which restrains the dealer or distributor from handling of goods of a competitor, is not a *per se* violation of the anti-trust laws but must be proved such at a trial—it was error for the Court of Appeals to hold that such a restraint is a *per se* patent misuse in a patent infringement

suit brought by a manufacturer and to affirm the granting of a motion for summary judgment holding that there was misuse.

2. Whether this Court should resolve a conflict between the holding of the Court of Appeals for the Ninth Circuit in this case and the holding of the Court of Appeals for the Sixth Circuit in another recent case respecting patent misuse arising out of a distributorship contract which restrains a distributor from handling the goods of a competitor; such conflict being that the Court of Appeals for the Ninth Circuit in the present case held that such a contract is a patent misuse *per se* and that the guidelines of *Tampa Electric Company v. Nashville Coal Co.*, 365 US 320, among other cases, is not controlling whereas in *Preformed Lined Products Co. v. Fanner Manufacturing Co.*, 328 F.2nd 265, the Court of Appeals for the Sixth Circuit held that such a contract is subject to the guidelines of the *Tampa* case.

3. Whether the Court of Appeals has so far departed from the accepted and usual course of judicial proceedings as to call for an exercise of the Supreme Court's power of supervision, in that Petitioner has been denied due process of law under the Fifth Amendment of the Constitution of the United States because one of the issues determined adversely to Petitioner by the District Court was determined in a summary proceeding (a motion for summary judgment) without the benefit of a trial; the issue so determined was the interpretation of a provision in a contract which is ambiguous on its face and concerning which a factual issue of estoppel was raised by Petitioner; and the Court of Appeals has refused to rule one way or the other on such summary determination, thereby leaving this matter adjudicated adversely to Petitioner without a trial.

CONSTITUTIONAL PROVISION INVOLVED

The due process clause of the Fifth Amendment to the Constitution of the United States is involved. Insofar as it is pertinent, it reads as follows:

> "No person shall . . . be deprived of life, liberty, or property, without due process of law . . ."

Specifically, it is the deprivation of a property right (the right to grant licenses under a patent) by reason of a summary adjudication (a motion for summary judgment) without a trial, that presents the Constitutional issue.

STATUTORY PROVISIONS INVOLVED

No statutory provisions as such are involved. This case turns upon the Constitutional issue raised in Question No. 3 supra and upon an interpretation of decisions of this Court and of the various Courts of Appeals.

STATEMENT OF THE CASE

Suit was brought by Petitioner (plaintiff-appellant below) for infringement of his patent No. 2,698,757 for a safety-type ski binding (i.e., a binding used to clamp a boot to a ski, but which will release the ski in case of an accident). Jurisdiction of the District Court was based on 28 USC 1400(b) and upon Rule 56 of the Federal Rules of Civil Procedure; jurisdiction of the Court of Appeals was based on 28 USC 1291.

The facts involved are set forth in the opinion of the Court of Appeals; therefore references to the certified copy of the record need be very few.

Suit was brought against the Respondent (defendant-appellee below) but was settled in 1959 by a consent decree and a license agreement. The consent decree held the patent

valid and infringed and enjoined further infringement by Respondent but the license permitted continued manufacture and sale of the articles by Respondent conditioned upon the payment of royalties. Subsequently, Petitioner asserted breach of the license agreement and cancellation thereof and brought a motion to hold Respondent in contempt for asserted continued infringement by Respondent. This contempt motion brought on a motion by Respondent for summary judgment and to vacate the consent decree and to set aside the license agreement, such motion being predicated upon the ground that, unbeknownst to Respondent, in 1952 Petitioner had entered into a Sales Agreement with a third party (Northland Ski Manufacturing Co., hereinafter referred to as "Northland") appointing Northland the exclusive distributor of Petitioner. The pertinent provisions of that Sales Agreement are set forth in footnote 1 to the opinion of the Court of Appeals in Appendix B. At issue below and involved in this Petition is paragraph 1 of the agreement which gives Northland (referred to as Second Party) "the exclusive right to sell and distribute said safety-type ski binding" manufactured by Petitioner (referred to as First Party) and which provides:

> "First Party [Petitioner] agrees to take all steps necessary to patent and otherwise safeguard against any encroachment upon the trade name or design of said binding".

Also involved is paragraph 4 which provides that:

> ". . . Second Party [Northland] shall not manufacture or distribute in the United States or Canada any other safety type or automatic releasing ski binding other than that manufactured by First Party [Petitioner]".

It was the position of Respondent in the District Court that paragraph 1 of this Sales Agreement constituted Northland an exclusive licensee under the patent in suit and, therefore, it precluded Petitioner from granting a subsequent license to anyone else, including Respondent. Therefore, it was contended, the license agreement granted by Petitioner to Respondent in settlement of the infringement suit was void and the consent decree must fall with it because it was part of the same transaction.

In the District Court it was argued by Petitioner that, at best, paragraph 1 of the Sales Agreement with Northland is ambiguous, (it nowhere states, or even clearly implies, that an exclusive license was intended) and that factual issues of estoppel including the fact that Northland had notice of the settlement negotiations between Petitioner and Respondent but took no steps to prevent consummation of the license agreement nor did Northland warn Respondent of any adverse rights. (Transcript of Record filed in this Court, Vol. One, pages 49A-49I.) No serious effort was made by Respondent to counter these contentions of Petitioner that there are material questions of fact. Nevertheless, the District Court granted summary judgment holding, in part, that the 1952 Sales Agreement between Petitioner and Northland was, as a matter of law, an exclusive license agreement which precludes Petitioner from granting a license to any other person. (Conclusion of Law No. (1), appearing at page 57 of Volume One of the Transcript of Record on file in this Court.)

The Court of Appeals (see last paragraph of its opinion), having found another reason (patent misuse) to affirm the District Court, refused to rule on this aspect of the case. The Court of Appeals denied a petition for rehearing which was based, in part, upon the fact that the Court failed to

rule upon this point (Transcript of Record, Vol. One, page 90).

It was also the position of Respondent in the summary proceeding in the District Court that paragraph 4 of the Sales Agreement between Petitioner and Northland constitutes patent misuse *per se* (i.e., apart from other facts and circumstances) because it restrains Northland from manufacturing or distributing safety-type or automatic releasing ski bindings other than those manufactured by Petitioner. It was contended by Petitioner in both Courts below that, under the law, such a restraint is not a misuse *per se* but can be a misuse only in the light of surrounding circumstances. Both Courts ruled adversely to Petitioner on this point, holding that paragraph 4 of the Sales Agreement constitutes misuse *per se* and sustaining Respondent's motion for summary judgment.

REASONS FOR GRANTING THE WRIT

(1) The decision of the Court of Appeals will have a disastrous effect upon the ownership of patents by small companies and will stack the odds more than ever in favor of large companies who own patents.

This decision holds that if a manufacturer (even a small manufacturer, who must do so in order to survive) appoints an exclusive distributor and requires the distributor to refrain from handling the goods of a competitor, the manufacturer may not enforce his patents.

As delineated and foreshadowed by the dissenting view of Mr. Justice Douglas (now the majority view of this Court, see the *Tampa* and *White Motor* cases, infra) in *Standard Oil Co. v. U.S.*, 337 U.S. 293, 320, 321, 69 S.Ct. 1051, 1067, 93 L.Ed. 1371, 1389, 1390 (1949), if manufacturers are told that exclusive dealership arrangements with independent

dealers are unlawful *per se*, then the larger manufacturers who are financially able to do so can and will avoid the difficulty by abolishing their independent dealerships and setting up captive sales organizations; but small manufacturers who cannot afford to do this will have to go out of business or continue to sell through dealers who are free to sell competitors' goods. Both small manufacturers such as Petitioner here, and independent dealers will suffer.

What the Court of Appeals tells the patentee is this: If you are big enough to hire your own salesmen, you can avoid the impact of our decision because you can lawfully forbid your own employees to sell competitors' goods; but if you are too small to do this, and must appoint independent dealers, our decision cannot be avoided.

(2) The decision of the Court of Appeals in this case conflicts with a recent decision of the Court of Appeals for the Sixth Circuit (*Preformed Line Products Co. v. Fanner Manufacturing Co.*, 328 F.2d 265, 6th Cir., 1964) with regard to the applicability of the *Tampa* case to patent misuse.

In the present case the Court of Appeals has held that it is bound by *Morton Salt Co. v. Suppiger Co.*, 314 U.S. 488, 62 S.Ct. 402, 86 L.Ed. 363 (1942), which held that a tie-in of patented with unpatented goods is patent misuse *per se* and does not require proof of damage; and that more recent Supreme Court anti-trust cases, including *Tampa Electric Co. v. Nashville Coal Co.*, 365 U.S. 320, 81 S.Ct. 623, 5 L.Ed., 2nd 580 (1961), are not controlling. See more particularly the opinion of the Court of Appeals at 329 F.2d page 784 and footnote 2 on the same page of the report (page 6 of Appendix B). In the *Preformed* case the Court of Appeals for the Sixth Circuit dealt specifically with patent misuse arising out of an exclusive

dealing arrangement,[1] and held that such arrangement is subject to the guidelines established by this Court in the *Tampa* case. See 328 F.2d at page 277, where the Court of Appeals for the Sixth Circuit said:

> "Next we reach the question of exclusive dealing arrangement. The Supreme Court has set guidelines to demonstrate when an exclusive dealing arrangement violates the anti-trust laws. . . ."

Following this is a lengthy quotation from the *Tampa* case and an application of its "guidelines" to the question of exclusive dealing arrangement.

Thus, the Ninth Circuit has rejected and the Sixth Circuit has adopted the anti-trust guidelines of *Tampa* in a patent misuse situation.

(3) In holding that an exclusive dealing arrangement is patent misuse *per se*, the Court of Appeals for the Ninth Circuit has gone much further than this Court and than any other Court of Appeals; it has greatly extended the rule of the *Morton Salt* case; and it has gone counter to the spirit of the *Tampa* and *White Motor* cases.

The Court of Appeals relied upon *National Lockwasher Co. v. Garrett Co.*, 137 F.2d 255, 3rd Cir., 1943; *McCullough v. Kammerer Corp.*, 166 F.2d 759, 9th Cir., 1948 and *F. C. Russell Co. v. Consumers Insulation Co.*, 226 F.2d 373, 3rd Cir. 1955. But in *National Lockwasher* and *McCullough* a patent license (not an exclusive dealership arrangement such as involved here) was at issue, and the patent licenses

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1. Not to be confused with another aspect of the misuse question concerning a tie-in of patented with unpatented goods (which is not involved in the present case) and which is discussed separately from the question of exclusive dealing arrangements but under the same general heading, "Misuse of Patent No. 4". The separate discussion of exclusive dealing arrangement commences at 265 F.2d 277, fourth paragraph.

there involved restrained the licensees from handling unpatented goods as a condition of obtaining a license to manufacture the patented goods—a clear extension of the patent monopoly. In *F. C. Russell* an exclusive dealership arrangement was held to be misuse but only after a trial and after proof of dominance and control (which are not proved or even seriously suggested in the present case).

The Court of Appeals also relied upon *Morton Salt Co. v. Suppiger Co.*, 314 U.S. 488, 62 S.Ct. 402, 86 L.Ed. 363 (1942). But that case involved a tie-in of patented with unpatented goods, which is not involved here.

In the more recent *Tampa* and *White Motor* cases (*Tampa Electric Co. v. Nashville Coal Co.*, 365 U.S. 320, 81 S.Ct. 623, 5 L.Ed., 2nd 580 and *White Motor Co. v. U.S.*, 372 U.S. 253, 83 S.Ct. 696, 9 L.Ed. 2nd 738), this Court has held as follows in an anti-trust context: In *Tampa*, that an exclusive dealership arrangement which prevents a customer from purchasing the goods of a competitor is not wrongful *per se;* and in *White Motor*, that restraints of the same general character (restraints upon territories in which and classes of customers to whom dealers might sell), may be either:

> (1) "too dangerous to sanction or"
>
> (2) "allowable protections against aggressive competitors or the only practicable means a small company has for breaking into or staying in business" (372 U.S. at 702).

In *Tampa* and more particularly in *White Motor*, the Supreme Court has drawn a line between certain types of restraint (tie-ins of patented with unpatented goods, price fixing, group boycotts, agreements among competitors to divide markets) which are deemed *per se* unlawful because they lack any redeeming feature, and other types of

restraint (agreements between a manufacturer and his distributor, dealer or customer restraining the latter from handling goods of a competitor, selling outside a specified territory or selling to certain classes of customers). This second, vertical type of restraint is recognized as having the potential for good or for bad depending upon the facts, and as not being a *per se* violation. It was for these reasons that in both *Tampa* and *White Motor* the Supreme Court reversed a summary judgment. The same potentially good—potentially bad, non-*per se* type of restraint is involved in the present case.

The distinction drawn by the Supreme Court in *Tampa* and *White Motor* is in the interest of promoting small enterprise and of avoiding a rigid, heavy-handed application of the *per se* rule to all types of restraint. These views recognize that a *per se* rule as applied to certain restraints between a manufacturer and his dealer can be readily circumvented by a large company which is able to set up its own captive sales organization, but not by a small company which is unable to do so. This Court should apply this wholesome rule and distinction to patent litigation as well as to anti-trust litigation, in view of the fact that the same dire results (further concentration of power in large enterprises, further weakening of small enterprises) will flow from a rigid application of the *per se* rule in patent misuse situations as in anti-trust situations.

(4) This Court should decide whether, for there to be a *per se* patent misuse, there must be conduct which is condemned as inherently wrongful. This Court has held in *White Motor* and *Tampa* that the conduct involved here is not inherently wrongful, but the Court of Appeals in the present case has held, in effect, that the presence or absence of wrongful conduct is irrelevant in a patent infringement

suit; and the Court of Appeals in so doing has stripped Petitioner of the protection of a consent decree and the benefits of a license agreement, and has ordered restitution of substantial royalties paid by Respondent to Petitioner (See Transcript of Record, Vol. one, page 59)

(5) On the issue of the meaning of paragraph 1 of the 1952 Sales Agreement between Petitioner and Northland (as to whether it constitutes an exclusive license which precludes Petitioner from licensing anyone else), Petitioner has been deprived of the right to a trial to determine the intent of the parties to the agreement and to determine whether there is an estoppel against Northland to contest the validity of the license to Respondent. The language of paragraph 4 is not so clear that it can be said, as a matter of law, that Petitioner and Northland intended an exclusive license; and no serious effort has been made by Respondent to dispel this doubt or the doubt raised by the issue of estoppel arising out of the fact that Northland knew of, but never objected to, the license negotiations between Petitioner and Respondent.

It is rudimentary that, if there is a material issue of fact, summary judgment must be denied. Rule 56 FRCP, and the *White Motor* and *Tampa* cases, supra. See also *Fidelity & Deposit Co. v. U.S.*, 187 US 315, 319, 320 23 S.Ct. 120, 122, 47 L.Ed. 194, 197, 198 (1902); *Associated Press v. U.S.*, 326 U.S. 1, 5, 6, 65 S.Ct. 1416, 1417, 1418, 89 L.Ed. 2013, 2022, (1944). See also 6 Moores Federal Practice, 2nd Ed., page 2236 (Sec. 56.17 [43]) and *Rolle Manufacturing Co. v. Marco Chemicals*, 92 F.Supp. 218, 219, D.C., 3rd Dist., New Jersey (1950) on the point of the inappropriateness of summary judgment regarding interpretations of ambiguous contracts.

(6) It is unquestioned, under the Seventh Amendment to the Constitution of the United States, that the right to a

trial by jury cannot be taken away by a motion for summary judgment. *Fidelity & Deposit Co. v. U.S.*, 187 U.S. 315, 319, 320, 23 S.Ct. 120, 122, 47 L.Ed. 194, 197, 198 (1902). The right to a trial by jury is not claimed in the present case but the right to a court trial of the issues determined below has been demanded. This Court should determine whether deprival of Petitioner's right to a court trial, including the calling of witnesses by Petitioner and cross-examination of witnesses called by Respondent, is a violation of the due process clause of the Fifth Amendment of the Constitution of the United States. Certain authorities so indicate, *Ackermann v. U.S.*, 178 F.2d 983 (5th Cir., 1949), affirmed by this Court but without discussion of this point at 340 U.S. 193, 71 S.Ct. 209, 95 L.Ed. 207 and cited with approval by Corpus Juris Secundum, vol. 16A, page 830, section 624. The Court of Appeals for the Fifth Circuit said at 178 F.2nd 985 in the *Ackermann* case:

> "The right of a litigant to a trial in accordance with forms of law, and with an opportunity to present his claim or defense, if he desires to do so, is a vital part of due process."

That right has been denied Petitioner in this case, certainly with respect to the status of the Sales Agreement as a license, and also with respect to the misuse issue if this Court agrees that paragraph 4 thereof is not misuse *per se*. It should be noted that the status of the Sales Agreement as a license is not moot even though the misuse defense is sustained, because Petitioner has the right to purge himself of misuse (*B.B. Chemical Co. v. Ellis*, 314 U.S. 495, 498, 62 S.Ct. 406, 408, 86 L.Ed. 367, 370 (1942), after which the right to grant licenses is a valuable property right.

CONCLUSION

It is respectfully submitted that important issues are presented respecting the administration of the patent laws, the relevance of recent anti-trust case law to the patent law, a Constitutional question regarding the right to a trial of disputed issues, and a clear conflict between two Circuit Courts of Appeal; and that such issues justify the granting of the writ.

Dated, San Francisco, California
June 18, 1964

Respectfully submitted,

EDWARD B. GREGG
Counsel for Petitioner

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of Counsel

(Appendices A and B Follow)

Appendix A

United States Court of Appeals
for the Ninth Circuit

No. 18740

BERNARD E. BERLENBACH, also called BARNEY BERLENBACH, and doing business under the fictitious name of SKI-FREE COMPANY,
Appellant,

vs.

ANDERSON AND THOMPSON SKI CO., INC., a corporation,
Appellee.

JUDGMENT

APPEAL from the United States District Court for the Western District of Washington, Northern Division.

THIS CAUSE came on to be heard on the Transcript of the Record from the United States District Court for the Western District of Washington, Northern Div. and was duly submitted.

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court, that the judgment of the said District Court in this Cause be, and hereby is affirmed.

Filed and entered March 25, 1964

Appendix B

United States Court of Appeals
for the Ninth Circuit

No. 18,740

BERNARD E. BERLENBACH, also called BARNEY BERLENBACH, and doing business under the fictitious name of SKI-FREE COMPANY,
Appellant,

vs.

ANDERSON AND THOMPSON SKI CO., INC., a corporation,
Appellee.

[March 25, 1964]

On Appeal from the United States District Court for the Western District of Washington, Northern Division

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Before: ORR, JERTBERG and BROWNING, Circuit Judges.

JERTBERG, Circuit Judge:

This action was commenced in November of 1957 by the filing of a complaint, by appellant against appellee, charging infringement of appellant's patent No. 2,698,757 for safety binding for ski runners, and unfair competition.

Appellant's application for patent was filed July 5, 1949, and the patent was issued on January 4, 1955.

On June 12, 1959 the District Court entered a consent decree dismissing the unfair competition action and holding

that appellant's patent was valid and infringed by appellee, and permanently enjoining appellee from further infringement. Consent to said decree was given by the parties pursuant to an agreement dated April 28, 1959, between them whereby appellant gave appellee a "non-exclusive license to manufacture, use and sell safety bindings for ski runners under said patent for the full term of said patent," and agreed to accept from appellee a sum certain and royalties.

Subsequently, in 1961, appellant gave notice to appellee of an asserted breach of the license agreement (failure to pay royalties; failure to account; and unconsented to manufacture and sale of infringing devices) and of revocation of the license. Thereafter, appellant filed a motion to hold appellee in contempt of the consent decree. In response to this motion, appellee filed a motion for summary judgment, a motion to vacate the consent decree, and a motion to file an answer and counterclaims to the original complaint. After a hearing the district court granted all of appellee's motions.

The district court found that on April 7, 1952, while appellant's patent application was pending, appellant entered into a sales agreement with Northland Ski Manufacturing Company;[1] that as of the time of the hearing on the motions,

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[1] "WHEREAS, First Party is presently manufacturing a safety type of automatic releasing ski binding known as SKI FREE SAFETY SKI BINDING, and

"WHEREAS, Second Party is desirous of buying and distributing said ski binding throughout the United States and Canada, the parties hereto agree as follows:

"1. For the duration of this agreement Second Party agrees to buy and First Party agrees that Second Party shall have the exclusive right to sell and distribute said safety ski binding, together with any improvement that may be added thereto by First Party with the approval of Second Party throughout the United States and Canada. First Party agrees to take all steps necessary

the Northland agreement had not been modified and was still in effect; that no part of the Northland agreement was viewed by appellee prior to August 4, 1961; and that appellant entered into the settlement and license agreement with appellant in good faith believing that appellant had the right to grant appellee a non-exclusive license under the patent. The court concluded that the Northland agreement constituted a license under appellant's patent; that since the Northland agreement was still in effect on April 28, 1959, appellant did not and does not have the right to license appellee under the patent to manufacture, use and sell ski bindings; that paragraph 4 of the Northland agreement constitutes misuse of appellant's patent and because of said misuse the original complaint on file in the action should be dismissed.

Appellant here contends that the Northland agreement on its face does not constitute an exclusive license; that it is at least ambiguous so that resort must be had to facts and circumstances outside the four corners of the instrument and that therefore summary judgment was improperly granted; that appellee is estopped to deny the validity of its license agreement with appellant; that the district court erred in granting summary judgment on the ground of patent misuse in the absence of proof of certain indicia of restraint, such as the position of the parties in the industry, the connection between the offending contract pro-

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to patent and otherwise safeguard against any encroachment upon the trade name or design of said binding.

* * * *

"4. It is understood and agreed that during the term of this agreement, or any extension thereof, Second Party shall not manufacture or distribute in the United States and Canada any other safety type or automatic releasing ski binding other than that manufactured by First Party, together with any improvements developed by First Party and approved by Second Party."

vision and the patent in suit, and whether the patentee ever enforced the offending clause; and that in any event patent misuse does not bar an infringement suit unless the patentee's conduct is such as would constitute a violation of section 3 of the Clayton Act, and therefore the court erred in granting summary judgment without proof that the effect of the Northland agreement may be to "substantially lessen competition or tend to create a monopoly in any line of commerce." We will discuss these contentions in reverse order for convenience.

In a series of cases involving the licensing of patents, the Supreme Court held that clauses which tie-in the exclusive sales of non-patented items with patented items are contrary to public policy for the reason that such tie-in agreements extend the patent monopoly beyond the scope permitted by the Constitution and the Congress. In the *United States v. Univis Lens Co., Inc.*, 316 U.S. 241 (1942) the court said, "the method by which the monopoly is sought to be extended is immaterial."

On the strength of these cases, and the language last quoted, the court in *Lockwasher Co. v. George K. Garrett Co.*, 137 F.2d 255 (3rd Cir. 1943), held that a clause prohibiting a licensee from selling articles in competition with the patented articles likewise constitutes patent misuse which bars the patentee from maintaining a patent suit. This circuit approved and followed the *Lockwasher* case in *McCullough v. Kammerer Corp.*, 166 F.2d 759 (9th Cir. 1948). The case of *Morton Salt Co. v. Suppiger Co.*, 314 U.S. 488 (1942) specifically rejected the argument that patent misuse must be of such gravity as to violate the Clayton Act in order to bar relief. The court said at 490:

> "The Clayton Act authorizes those injured by violations tending to monopoly to maintain suit for treble

damages and for an injunction in appropriate cases. 15 U.S.C. §§ 1, 2, 14, 15, 26. But the present suit is for infringement of a patent. The question we must decide is not necessarily whether respondent has violated the Clayton Act, but whether a court of equity will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article."

In view of the history and policy of the defense of patent misuse we find no merit in appellant's contentions that the proof of substantial lessening of competition is a prerequisite to finding patent misuse. See *Park-In Theatres v. Paramount-Richards Theatres*, 90 F. Supp. 730 (D.Del. 1950), aff'd 185 F.2d 407 (3rd Cir. 1950); and *Waco-Porter Corp. v. Tubular Structures Corp. of America*, 222 F.Supp. 332 (S.D.Cal. 1963). Neither do we feel that the cases cited in the margin[2] overrule the *Morton Salt* case, as appellant suggests.

The *Morton Salt* case contains the following language at page 493:

"Maintenance and enlargement of the attempted monopoly of the unpatented article are dependent to some extent upon pursuading the public of the validity of the patent, which the infringement suit is intended to establish. Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has

[2] *Standard Oil Co. of California v. United States*, 337 U.S. 293 (1949); *White Motor Company v. United States*, 372 U.S. 253 (1963); *Tampa Electric Company v. Nashville Coal Co.*, 365 U.S. 320 (1961).

been abandoned and that the consequences of the misuse of the patent have been dissipated."

Appellant argues that he will prove, if permitted to, that he never enforced paragraph 4 of the Northland agreement. He contends that non-enforcement of the provision is tantamount to abandonment of the improper practice and dissipation of its consequences within the meaning of the language just quoted. If this is not an issue of "material" fact, it is of no avail to appellant's efforts to reverse the summary judgment. As we view the present state of the law, the question of enforcement is immaterial. In *F. C. Russell Co. v. Consumers Insulation Co.*, 226 F.2d 373 (3rd Cir. 1955) a case involving a manufacturer's exclusive dealership contract containing a clause such as paragraph 4 of the Northland agreement, the court said at page 376:

> "Russell attempts to assert a number of defenses to the foregoing. It contends that the real test is whether or not it has enforced or attempted to enforce the invalid provisions of its sales agreements to which we have referred. *Ergo*, says Russell, there is no showing that it has gone beyond the purpose and limits of the protection of the patent. It relies in large part on the March 31, 1955 report of 'The Attorney General's National Committee to Study the Anti-Trust Laws', which commented specifically on Russell's case in the Seventh Circuit Court of Appeals, cited above. The comments in pertinent part are set out in the footnote. [Footnote 3 omitted].
>
> "Russell insists that it has not attempted illegally to extend the scope of its patent monopoly. But here is a field of competitive selling in which the holder of a patent by way of agreements, at least related to a

patent monopoly, has given itself the power to control both distributors and dealers if it wishes to do so. The inchoate threat which these circumstances engender hangs in the air and we may doubt that the threat is without its effect in a highly competitive market. We cannot agree with the Attorney General's Committee, distinguished as its membership is, when the Committee says in commenting on Russell v. Comfort, that 'there was nothing to indicate that * * * [the patent] had any practical relationship with the exclusive agreement.' There is in fact a relationship and it seems to us to be a very practical one, for it may not be assumed that the contracts and the patent came into juxtaposition inadvertently or accidentally. The parties, their dealers, distributors and, indeed, their customers, are not living in a strange, non-commercial world where exclusive agreements are found under Christmas trees.

"But aside from the foregoing, the Supreme Court has held that whether an illegal provision of a contract is or is not enforced makes no difference if the contract gives the patentee, as here, the power to effect enforcement. See, for example, United Shoe Machinery Corp. v. United States, 1922, 258 U.S. 451, 458, 42 S. Ct. 363, 66 L. Ed. 708, and similar decisions. Certainly, if the law is to be changed in this respect, it should be altered by the Supreme Court and not by this tribunal."

Although we have said that non-enforcement *and* voluntary relinquishment of an illegal clause will overcome the defense of patent misuse,[3] we know of no case permitting an

[3] *Zajicek v. Koolvent Metal Awning Corp. of America*, 283 F.2d 127 (9th Cir. 1960).

infringement suit where the clause remains in effect but unenforced.

Appellant's reliance upon *Republic Molding Corp. v. B. W. Photo Utilities*, 319 F.2d 347 (9th Cir. 1963) is misplaced. There we were concerned with the plaintiff's disregard of the statute prohibiting falsely advertising "patent applied for" or "patent pending." We were unable to find any connection between the right asserted and the acts of misconduct, and held that the doctrine of "unclean hands" did not bar plaintiff's infringement suit. We recognized that patent misuse such as here involved must be "purged" under the *Morton Salt* case. The Supreme Court said at page 494 of the *Morton Salt* case:

> "It is the adverse effect upon the public interest of a successful infringement suit, in conjunction with the patentee's course of conduct, which disqualifies him to maintain the suit, *regardless of whether the particular defendant has suffered from the misuse of the patent.*" (Emphasis added.)

In view of our conclusion that the district court was correct in granting summary judgment on the ground of patent misuse, we do not reach appellant's remaining specifications of error. The judgment of the district court is affirmed.

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No. 210

In the Supreme Court of the United States

OCTOBER TERM, 1964

BERNARD E. BERLENBACH, also called BARNEY BERLENBACH, and doing business under the fictitious name of SKI-FREE COMPANY, *Petitioner,*

vs.

ANDERSON AND THOMPSON SKI CO., INC., a corporation, *Respondent.*

WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

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THE ARGUS PRESS SEATTLE, WASHINGTON

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No. 210

WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

THERE IS NO CONFLICT WITH THE DECISIONS OF THIS COURT

Petitioner claims that the decision below is in conflict with *Standard Oil Co. of California v. United States*, 337 U.S. 293, 69 S.Ct. 1051, 93 L.Ed. 1371 (1949); *Tampa Electric Co. v. Nashville Coal Co.*, 365 U.S. 320, 81 S.Ct. 623, 5 L.Ed. 2d 580 (1961); and *White Motor Co. v. U. S.*, 327 U.S. 253, 83 S.Ct. 696, 9 L.Ed.2d 738 (1963), and that the Court of Appeals in the present case erred in holding that these three anti-trust decisions, none of which involved questions of patent misuse, overrule the patent misuse concepts proclaimed by this Court in *Morton Salt Co. v. Suppiger Co.*, 314 U.S. 488, 62 S.Ct. 402, 86 L.Ed. 363 (1942), a case in which there was not an anti-trust vio-

lation. As properly stated by the lower court, the *Morton Salt* case (at page 490) specifically rejected petitioner's argument that patent misuse must be of such gravity as to violate the Clayton Act in order to bar relief in a patent infringement action.

The "particular form or method by which the [patent] monopoly is sought to be extended is immaterial." *United States v. Univis Lens Co., Inc.*, 316 U.S. 241, 251, 62 S.Ct. 1088, 1094 86 L.Ed. 1408 (1942); *United States Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457, 77 S.Ct. 490, 1 L.Ed.2d 465 (1957).

THERE IS NO CONFLICT AMONG THE CIRCUITS

Petitioner alleges that the decision of the Ninth Circuit in the present case is in conflict with the holding of the Sixth Circuit in *Preformed Line Products Co. v. Fanner Manufacturing Co.*, 328 F.2d 265, 6th Cir., 1964, because in the latter case the court relied upon the *Tampa Electric Co.* case, *supra*, with regard to its consideration of the exclusive dealing arrangement. But, in the *Preformed Line Products Co.* case the appellate court was only concerned as to whether or not the exclusive dealing arrangement violated the antitrust laws. It did not consider whether or not an exclusive dealing arrangement constitutes patent misuse, for it had earlier in its decision affirmed the district court in holding that the sale of patented dead ends, conditioned on the purchase by the buyer of other products not within the protection of the patent, was "both a patent misuse (abusive extension of the patent monopoly) and a violation of Section 3 of the Clayton Act (by a tying arrangement)." In the present case

there never has been a question of anti-trust violation, and hence there was no occasion for the lower court to concern itself with the *Tampa Electric Co.* decision.

THERE IS NO CONSTITUTIONAL QUESTION

Petitioner has not been deprived of the right to grant licenses under his patent by reason of a summary adjudication without a trial.

It is well settled law that when a patentee enters into an agreement to transfer a particular right or interest in his patent, the true nature and effect of the agreement does not depend upon the name by which it calls itself, but upon the legal effect of its provisions. *Waterman v. Mackenzie,* 138 U.S. 252, 11 S.Ct. 334, 34 L.Ed. 923. The right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee. *Adams v. Burke,* 17 Wall. 452, 21 L.Ed. 700.

By holding that the petitioner had already exclusively granted in its agreement with Northland Ski Manufacturing Co. the exclusive right to sell the patented ski bindings, and that therefore petitioner did not have the right to later license respondent to manufacture and sell ski bindings under the patent, the trial court did not deprive petitioner of property rights, but merely held that petitioner had already voluntarily disposed of these property rights.

Even if the Northland agreement had been considered ambiguous or uncertain by the circuit court, it was not within its proper or legal functions as a court of review to reject the construction given the writing by the trial court if such construction were considered

to be a reasonable one. The circuit court did not find that the Northland agreement was ambiguous or that the trial court's construction of the agreement was unreasonable. This is clear from the fact that the circuit court's affirmation of the trial court's decision on the issue of patent misuse was based on the language of the Northland agreement.

On the issue of estoppel by Northland raised by petitioner, during the hearing of respondent's motion for summary judgment the trial judge gave both parties opportunity to offer deposition testimony, documentary evidence, and to present further testimony. Although given ample opportunity, respondent failed to offer any evidence supporting its present contention that there is an estopped against Northland to contest the validity of the license to respondent.

Clearly, petitioner has not been denied or deprived of due process of law in the present case.

THE LOWER COURT'S DECISION IS NOT PREJUDICIAL TO SMALL COMPANIES

Without factual basis, at page 7 of the petition, petitioner states that a small manufacturer must, in order to survive, appoint an exclusive distributor and require the distributor to refrain from handling the goods of a competitor. Based on this erroneous premise, and an assumption that small companies cannot afford to hire salesmen, petitioner concludes that small manufacturis an estoppel against Northland to contest the validity reaching this erroneous conclusion, petitioner has completely overlooked the wide use of commission sales-

men and manufacturers representatives by small companies to distribute their products.

When a patentee is granted the patent monopoly he takes on duties to the public as well as receiving benefits, whether his business is small or large. This is his voluntary choice. Even if economically small, he should not complain because his duties to the public do not permit him to act as one who does not have the benefits of a patent monopoly.

CONCLUSION

For the reasons set forth above, the petition for certiorari should be denied.

Dated, Seattle, Washington
July 17, 1964

Respectfully submitted,

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Of Counsel
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In the Supreme Court of the United States

OCTOBER TERM, 1964

No. 210

BERNARD E. BIEHLENBACH also called BARNEY BIEHLENBACH and doing business under the fictitious name of SKI-FREE COMPANY,

Petitioner,

vs.

ANDERSON AND THOMPSON SKI CO., INC., a corporation,

Respondent.

Reply Brief in Support of Petition for a Writ of Certiorari

To the United States Court of Appeals for the Ninth Circuit

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OCTOBER TERM, 1964

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ANDERSON AND THOMPSON SKI CO., INC., a corporation,

Respondent.

Reply Brief in Support of Petition for a Writ of Certiorari

To the United States Court of Appeals for the Ninth Circuit

In View of the Granting of a Writ of Certiorari in Brulotte v. Thys Co., No. 707, October Term, 1963, It Is All the More Appropriate to Consider the Misuse Issue Raised by This Petition.

Since the filing of the Petition herein, it has come to the attention of Petitioner's counsel that this Court has granted certiorari[1] in *Walter L. Brulotte et al v. Thys Company,*

1. 84 S.Ct. 666.

No. 707, October Term, 1963, which will be heard this fall.

The Brulotte case concerns the same general subject matter—the area of conflict between (1) the patent laws (and the rights which flow therefrom, including the right to enjoin and recover damages for infringement, and to grant licenses and collect royalties therefor), and (2) the law of contract, including the right to contract freely under State laws and to exercise restraints subject to the common law and the statutory law of the States and subject to the Federal anti-trust statutes and the Federal case law regarding patent misuse.

In *Brulotte*, the question which this Court has agreed to review is whether a patent owner may by contract require payment of royalties beyond the term of his patent.

In the present case, one of the questions which this Court is asked to review is whether a contract which restrains a dealer or distributor in a manner which may or may not (depending upon the facts) be contrary to the policy of the anti-trust laws, is nevertheless a patent misuse regardless of the facts.

It is believed that this question presented here is of even greater importance than the question in *Brulotte* because exclusive dealership contracts are an important and widespread mode of doing business and, as pointed out in *Standard Oil* and *White Motor*, they may represent the difference between failure and success for small, independent businessmen.

By granting a writ and deciding this question, as well as the question in *Brulotte*, this Court would, during its 1964 Term, clarify and settle a large and important area in the field of patent law and the law of contract.

The Standard Oil, Tampa, White Motor and Morton Salt Cases.

Respondent's Brief states (pages 1 and 2) that the decision of the Court of Appeals in this case does not conflict with the Standard Oil (*Standard Oil Co. of California*, 337 US 293, 69 S.Ct. 1051, 93 L.Ed. 1371, 1949), Tampa (*Tampa Electric Co. v. Nashville Coal Co.*, 365 US 320, 81 S.Ct. 623, 5 L.Ed. 2nd 580, 1961) and White Motor (*White Motor Co. v. U. S.*, 372 US 253, 83 S.Ct. 696, 9 L.Ed. 2nd 738, 1963) cases and that, because none of these three cases "involved questions of patent misuse", the Court of Appeals correctly decided that they do not "overrule the patent misuse concepts proclaimed by this Court in *Morton Salt Co. v. Suppiger Co.*, 314 US 488, 62 S.Ct. 402, 86 L.Ed. 363, (1942)."

This approach illustrates the confusion that exists among the lower courts and in the legal profession as to the relationship between the anti-trust law and the doctrine of patent misuse; and it clearly indicates why this Court should resolve that question by granting the petition.

The anti-trust laws apply to certain restraints. The courts have held some of these restraints to be so odious as to be unlawful *per se*, examples being a tie-in of patented with unpatented goods (involved in *Morton Salt*), group boycotts, price fixing, etc. (See *White Motor* at 372 US 259, 260, 83 S.Ct. 700, 9 L.Ed. 2nd 744). Other restraints are recognized as having a potential for good or for bad and, therefore, they cannot be condemned as wrongful conduct *per se* (*White Motor*, supra). Among such potentially good, potentially bad restraints is the precise restraint which is involved here, namely, a restraint placed by a manufacturer upon a dealer or distributor with respect to dealing in the goods of a competitor.

Morton Salt did not hold that any and all restraints are a patent misuse; it held only that a particular type of restraint (a tie-in of patented with unpatented goods), which is recognized as a *per se* anti-trust violation is also a *per se* patent misuse, even in the absence of proof of damage which would be required to support a suit for treble damages under 15 USC 15. *Morton Salt* held that, where there is conduct which is a *per se* anti-trust violation, such conduct should be punished by refusing to enforce patents which have made the conduct possible.

Clearly, and apart from semantics, the Court of Appeals in the present case has extended the *Morton Salt* rule, and the direction of its extension is opposed in principle to *Standard Oil, Tampa* and *White Motor*. If the Supreme Court agrees with this extension, so be it; but let there be an end to confusion and uncertainty on this point by granting the petition and deciding the matter once and for all.

The Conflict Between This Case and the Preformed Line Products Case.

Respondent asserts that, in *Preformed* (*Preformed Line Products Co. v. Fanner Mfg. Co.*, 328 F.2d 265), the Court of Appeals for the Sixth Circuit "was only concerned as to whether or not the exclusive dealing arrangement violated the anti-trust laws" (page 2 of Respondent's Brief).

For the convenience of this Court, the complete text of the opinion of the Court of Appeals for the Sixth Circuit in the *Preformed* case, insofar as it relates to patent misuse (and apart from the section entitled "Purge of Misuse", which is not pertinent here), is set forth in the Appendix hereto. Note that this carefully constructed opinion bears the following sub-headings: "Validity of Patent No. 3" (328 F.2d page 267); "Validity of Patent No. 4" (page 270);

"Infringement of Patent No. 3" (page 273); "Infringement of Patent No. 4" (page 273); "Scope of License Agreement" (page 274); "Misuse of Patent No. 4" (page 274); and "Purge of Misuse" (page 278).

Under the heading "Misuse of Patent No. 4" appearing at 328 F.2d pages 274 to 278 (pages 1 to 7 of the Appendix hereto), the court dealt not only with the question of tie-in of patented with unpatented goods but also with the question of *exclusive dealing arrangement*. Commencing with the third full paragraph on page 277 (page 6 of Appendix), the court said: "Next we reach the question of exclusive dealing arrangement." This is under the sub-heading, "Misuse of Patent No. 4". Thereafter (and under the same sub-heading) the court points out that "The Supreme Court has set guidelines to demonstrate when an exclusive dealing arrangement violates the anti-trust laws" and then quotes *in extenso* from this Court's opinion in *Tampa*.

The Court of Appeals for the Sixth Circuit, applying the *Tampa* guidelines to Preformed's exclusive dealing arrangement, determined that it did violate the anti-trust laws because its "power over the market" gave it the power to effectively foreclose competition in a substantial share of the line of commerce affected (328 F.2d 277, Appendix page 7). The court concluded (second paragraph on page 278, page 7 of Appendix):

> "On the basis of the finding of plaintiff's misuse of patent No. 4, it was properly denied relief for infringement by the defendant until it could show that it had wholly abandoned its improper practices and that their consequences had been fully dissipated."

It is incorrect to say that the Court of Appeals for the Sixth Circuit in the *Preformed* case did not consider an

exclusive dealership arrangement as being a species of patent misuse.

A conflict certainly exists between the Ninth and Sixth Circuits as to the question whether an exclusive dealership contract is a *per se* defense to a patent infringement suit, or whether it is subject to the guidelines set forth in *Tampa*. The Court of Appeals for the Ninth Circuit held in the present case that such a contract is a *per se* defense and does not require application of the guidelines of *Tampa*. The Court of Appeals for the Sixth Circuit held in *Preformed* that such a contract is not a *per se* defense and is subject to the guidelines of *Tampa*. "A rose by any other name is still a rose"; whether we call it "misuse" or "antitrust violation", the fact is that the same *fact* (exclusive dealership) is treated by the Ninth Circuit as a *per se* defense and by the Sixth Circuit as a *non-per se* defense which is subject to the guidelines of *Tampa*.

Both a Constitutional Question and a Question of the Propriety of Summary Judgement Are Involved as Regards Interpretation of the Sales Agreement.

Respondent does not deny that Petitioner has been deprived of the valuable right to grant licenses under his patent. Respondent is satisfied to contend that Petitioner has deprived himself voluntarily of that right by reason of the Sales Agreement with Northland; and that, as to this, Petitioner has had his day in Court.

On the point of ambiguity of the Sales Agreement, respondent merely suggests that, out of respect for the trial court, the Circuit Court should not have reviewed the findings of the trial court.

Petitioner contends that he has been denied a trial. The findings of fact, conclusions of law and judgment of the

district court clearly support this (Transcript of Record, Vol. One, page 53 which refers to "defendant's Motion for Summary Judgment"). The Court of Appeals at 329 F.2d 783 (page 3 of the Appendix accompanying the Petition) states that "appellee filed a motion for summary judgment . . ." and at the same page (page 4 of the Appendix to the Petition), the Court of Appeals noted Petitioner's contention that, because of ambiguity, "summary judgment was improperly granted".

At the very least, Petitioner has consistently *contended* that he has been denied his constitutional right to a trial. At the very least, the Court of Appeals *should have examined* that issue and determined whether Petitioner was right or wrong. The Court of Appeals has refused to do this. This is a denial of due process.

Regarding the issue of estoppel, there was, indeed, evidence offered by way of depositions; and such evidence was, without contradiction, that Northland knew of the license negotiations between Petitioner and Respondent but did nothing. (Transcript of Record, Vol. One, pages 49A-49I.) Respondent's Brief at page 4 erroneously states that,

> "Although given ample opportunity, respondent [sic] failed to offer any evidence supporting its present contention that there is an estopped [sic] against Northland to contest the validity of the license to respondent".

It is presumed that "petitioner" was intended rather than "respondent". Even so, the statement is in the teeth of the facts set forth at page 6 of the Petition, where it is stated that "Northland had notice of the settlement negotiations" . . . but took no steps to prevent consummation . . . nor . . . warn Respondent of any adverse rights". The Petition

referred to the record (Vol. One, pages 49A to 491) and stated "No serious effort was made by Respondent to counter these contentions".

For the convenience of this Court a portion of the Berlenbach deposition is set forth at pages 8 and 9 of the Appendix hereto. The position of Northland is summarized by Berlenbach as follows:

> "Q. Were they [Northland] in favor of an agreement between yourself and Anderson and Thompson?
>
> A. To my knowledge they [Northland] were neither opposed or in favor of it when we wrote them."

If Respondent wishes to file a supplemental brief to support its statement that "respondent [meaning "petitioner"] failed to offer any evidence supporting its present contention", Petitioner will gladly consent.

Regardless of the outcome of the misuse issue, there has been a miscarriage of justice as regards the nature of the Sales Agreement between Petitioner and Northland (whether or not it is an exclusive license). By judicial fiat, and without considering proffered evidence which is entirely to the contrary, and without a trial, the District Court has handed over Petitioner's patent to Northland and the Court of Appeals has said, in effect, "We are not concerned."

The Prejudicial Effect of the Court of Appeals' Decision with Respect to Small Companies.

In his petition, Petitioner has pointed out (pages 7 and 11) that the decision of the Court of Appeals will bear most heavily upon small companies which are unable, and most lightly upon large companies which are able to set up captive sales organizations and to control the actions of their employees. Respondent does not deny this but simply states

that this assertion is "Without factual basis" (page 4 of Respondent's Brief).

There is no better basis for this assertion than the opinions of this Court. Thus, in *Standard Oil* at 337 US 293 at 320, 321, 69 S.Ct. 1051 at 1067, 93 L.Ed. 1371 at 1389, 1390, in his dissenting opinion (now the majority view of this Court), Mr. Justice Douglas said with regard to the probable effect of voiding exclusive dealerships:

> "Today there is vigorous competition between the oil companies for the market. That competition has left some room for the survival of the independents. But when this inducement for their survival is taken away, we can expect that the oil companies will move in to supplant them with their own stations. There will still be competition between the oil companies. But there will be a tragic loss to the nation. The small, independent businessman will be supplanted by clerks."

And in *White Motor*, at 372 US 253 at 263, 83 S.Ct. 696 at 702, 9 L.Ed. 2nd 746 (erroneously cited at page 10 of the Petition as 372 US 702, which should be 372 US 263), this Court said that vertical restraints of the type involved here between a manufacturer and his dealer or distributor:

> "... may be too dangerous to sanction or they may be allowable protections against aggressive competitors or the only practicable means a small company has for breaking into or staying in business."

Comments on Some Cases Cited by Respondent.

Respondent's Brief at page 2 cites *United States v. United Lens Co.*, 316 US 241, 251, 62 S.Ct. 1088, 1094, 86 L.Ed. 1408 and *United States Gypsum Co. v. National Gypsum Co.*, 352 US 457, 77 S.Ct. 490, 1 L.Ed. 2d 465 as authority for the proposition set forth in quotes at page 2 of its Brief, that the "particular form or method by which the [patent] monopoly is sought to be extended is immaterial."

In *U. S. v. Univis* (an anti-trust case), price fixing (which is not involved here) was at issue. In *U. S. Gypsum v. National Gypsum*, price fixing was also involved, but nowhere in either the majority opinion nor in the dissenting opinion can Petitioner's counsel find the quoted language attributed to that case.

Waterman v. MacKenzie, 138 US 252, 11 S.Ct. 334, 34 L.Ed. 932 is cited at page 3 of Respondent's Brief with regard to the nature of an agreement respecting a patent. This case holds that anything short of the grant of "the whole patent, comprising the exclusive right to make, use and vend the invention throughout the United States", or an undivided part of that right, or the exclusive right under the patent within a specified part of the United States

> "... is a mere license, giving the licensee no title in the patent, and no right to sue at law in his own name for an infringement" (138 US 255, 11 S.Ct. 335, 34 L.Ed. 925).

The Sales Agreement between Petitioner and Northland did not convey to Northland "the exclusive right to make, use and vend the invention throughout the United States", nor an undivided part of that right, nor the exclusive right under the patent within a specified part of the United States. It conveyed only the exclusive right to sell (not to manufacture or to use) the safety bindings manufactured by Petitioner. The Sales Agreement was, at most, a mere license, not an exclusive license.

Conclusion

Respondent's Brief accentuates the fact that there has been a miscarriage of justice, that there is a conflict among the circuits on an important point of law, and that the Petition should be granted.

Dated, San Francisco, California
August 6, 1964

Respectfully submitted,

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MELVIN R. STIDHAM
Of Counsel

Appendix Follows

Appendix

Excerpt from Opinion of Court of Appeals of Sixth Circuit in Preformed Line Products Co. v. Fanner Mfg. Co., 328 F2d 274-278.

MISUSE OF PATENT NO. 4

Another defense to plaintiff's charge of infringement is that the plaintiff misused the patents in suit by a general abuse of the patent monopoly and by violating Section 3 of the Clayton Act. The District Court agreed as to Patent No. 4.

The trial court found facts as follows: The plaintiff's general policy was to refuse to sell to distributors or dealers unless they agreed to sell plaintiff's products exclusively.[10]

Regarding a series of business transactions between the plaintiff and the General Electric Supply Co. of Portland, Oregon, the court found that for several years prior to 1956 the General Electric Supply Co. of Portland had distributed plaintiff's products. In 1956 the distributor switched to defendant's products. Plaintiff's sales representatives sought to convince General Electric Supply Company's customers to buy elsewhere, from Preformed products distributors. Treasurer and Sales Manager Schloss succeeded in convincing the General Electric Supply Co. to resume

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10. P. H. Schloss, Treasurer and Sales Manager of plaintiff, testified on cross-examination as follows:

Q. All right. What has been the practice of Preformed Line Products Company where a distributor or a jobber may desire to handle Fanner products as a secondary line or a correlated line with Preformed Line Products' devices? What has been your policy—you are sales manager—in that regard?

A. "I would say that we don't want them selling both products.

Q. "That is, you do not want a distributor to sell Fanner Products at all; he is either going to sell all Preformed Line products or he isn't going to sell any; hasn't that been your policy?

A. "I would say in general, yes."

business relations and to deal exclusively with plaintiff.[11] The trial court found that while ostensibly General Electric Supply Co. had the option of dealing exclusively with Fanner or with Performed, by reason of the severe loss of business due to Preformed's efforts, the dealer really had no alternative but to deal exclusively with the plaintiff.

The court enumerated another instance of exclusive dealing in relation to the distributors of Indiana Steel & Wire Co. (This company is also a licensee of the plaintiff under patents Nos. 1 and 2.) The court found that the Graybar Electric Company was a distributor of the Indiana Steel & Wire Company. Specific instances of the plaintiff's application of its exclusive dealing policy as applied to Graybar "houses" were referred to in a "Blind note".[12] The court

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11. In a letter of December 10, 1957, to Sales Manager Schloss from John C. Shaffer, a sales representative of plaintiff, Shaffer wrote of "my discussions with General Electric Supply Company of Portland, forcing their decision whether to go Fanner or Preformed."

On the following day, Shaffer wrote to Schloss: "Phil, with regard to General Electric Supply Company, Portland and Medford. I can give you every assurance that they are now totally 100% Preformed Line Products Company and have discontinued the promotion and sale of Fanner."

12. A letter and memorandum dated April 10, 1958, from the home office to Shaffer and Nelson, plaintiff's sales representative at Spokane, Washington, spoke of the Indiana Steel & Wire Co. distributor, Graybar. The memorandum, styled "Blind note to P.L.P. personnel" read:

> "The Shaffer & Nelson organization, plus ourselves, have been trying to swing Graybar to the purchase of our materials only. Up to this date, they have wanted to purchase only products not manufactured by Indiana Steel & Wire Company from Preformed and to continue to purchase of their armor rods from the Indiana Steel & Wire Company.
>
> "Based on this thinking by Graybar, we have refused to ship them any of our products. This approach has worked successfully with a number of other Graybar houses in the country, where we have been able to convince them to purchase all of their products from our company * * *."

found that it was the plaintiff's purpose to enforce the exclusive dealing policy against the Graybar Company of Spokane, Washington.

The court found that following the issuance of patent No. 3 (the short pitch armor rod patent herein declared invalid), the plaintiff accepted royalties from Fanner and Indiana Steel and Wire Company on all armor rods manufactured and sold by its licensees. The plaintiff competed with the licensees in the sale of armor rods. The court found in the record no attempt by the plaintiff to restrain competition until after the issuance of the dead end patent No. 4 in September 1956.

The trial court accordingly drew the following factual conclusions: (1) After October 1956, the plaintiff embarked upon the policy of restraining competition in unpatented or licensed armour rods by tying the purchase of such devices to the purchase of the patented dead ends; (2) The plaintiff's real purpose was to foreclose competition by its licensees who were its only competitors; and (3) The sale of dead ends to Graybar was conditioned on the purchase by that company from plaintiff of other products not within the protection of patent No. 4.

Finally, the court found the economic significance of the plaintiff and the dead end: The plaintiff is the largest manufacturer and seller in the United States of helically preformed reinforcements and attachments of use on electric cables. It is the dominant company in this specialized field, its only competitors (Fanner and Indiana Steel & Wire Co.) being its two licensees. The patent No. 4 dead ends are now widely accepted in the electrical industry, and, therefore, good business practice requires jobbers and distributors of armor rods to carry preformed dead ends in stock.

The essential vice complained of here is that the sale of dead ends, protected under patent No. 4, was conditioned on the purchase by the buyer of other helical products not within the protection of this patent. This is the principal question on the issue of misuse. This asserted attempt to condition purchase of unpatented or licensed goods upon the purchase of patented goods can be both a patent misuse (abusive extension of the statutory patent monopoly) and a violation of Section 3 of the Clayton Act (by a tying arrangement). In the proof of illegal tying arrangement under the anti-trust laws, the evidence must demonstrate that a party had sufficient economic power to restrain free competition. We treat the questions together.

The basic public policy of the patent misuse doctrine was enunciated by the Supreme Court in Mercoid Corp. v. Mid-Continent Co., 320 U.S. 661. The Court said, at p. 665, 60 USPQ 21, 24: "The grant of a patent is the grant of a special privilege 'to promote the Progress of Science and Useful Arts.' Const., Art. I, Sec. 8. It carries, of course, a right to be free from competition in the practice of the invention. But the limits of the patent are narrowly and strictly confined to the precise terms of the grant. * * * It is the public interest which is dominant in the patent system."

The Court reaffirmed the doctrine that under the public policy of the patent laws a patentee could not be permitted to enlarge the practical scope of his lawful monopoly by tying other goods and thus restrain competition in goods not covered by the patent. Mecroid v. Mid-Continent Co., 320 U.S. 661, 664, 60 USPQ 21, 24; See Motion Picture Co. v. Universal Film Co., 243 U.S. 502; Carbice Corp. v. American Patents Development Corp., 283 U.S. 27, 8 USPQ 211; Leitch Mfg. Co. v. Barber Co., 302 U.S. 458, 36 USPQ 35; Morton Salt Co. v. Suppinger Co., 314 U.S. 488, 52 USPQ 30.

The Supreme Court has defined a tying agreement as: "an agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier." Northern Pac. R. Co. v. United States, 356 U.S. 1, 5-6. See Aluminum Co. of America v. Sperry Products, Inc., 285 F.2d 911, 926, 127 USPQ 394, 406, C.A. 6, cert. den., 368 U.S. 890, 131 USPQ 498.

In an anti-trust context the Court said: "Where the sale of an unpatented product is tied to a patented article, that is a per se violation since it is a bald effort to enlarge the monopoly of the patent beyond its terms." White Motor Co. v. United States, 372 U.S. 253, 259. (Citing Mercoid Corp. v. Honeywell Co., 320 U.S. 680, 684, 60 USPQ 30, 32, and International Salt Co., Inc. v. United States, 332 U.S. 392, 395-396, 75 USPQ 184, 186.)

The Court, in Northern Pac. R. Co. v. United States, 356 U.S. 1, stated, at p. 6, (referring to tying arrangements): "They are unreasonable in and of themselves whenever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product and a 'not insubstantial' amount of interstate commerce is affected * * *." See White Motor Co. v. United States, 372 U.S. 253, 262.

Applying the law to the facts, the trial court determined that the plaintiff, by its general policy of tying the purchase of armor rods to the purchase of patented dead ends, was attempting to create a limited monopoly in unpatented devices in contravention of the public policy of the Constitution and laws of the United States covering patents. The court concluded this general policy was also violative of the anti-trust laws, i.e., the Clayton Act.

We find that the facts and factual inferences drawn by the trial court are supported by the evidence and are not clearly erroneous. Rule 52(a), Federal Rules of Civil Procedure. Further, we are in accord with the legal conclusions drawn from those facts and agree that the plaintiff misused its patent monopoly and violated Section 3 of the Clayton Act by the tying arrangement.

Next we reach the question of exclusive dealing arrangement. The Supreme Court has set guidelines to demonstrate when an exclusive dealing arrangement violates the antitrust laws: "In practical application, even though a contract is found to be an exclusive-dealing arrangement, it does not violate the section unless the court believes it probable that performance of the contract will foreclose competition in a substantial share of the line of commerce affected. Following the guidelines of earlier decisions, certain considerations must be taken. First, the line of commerce, i.e., the type of goods, wares, or merchandise, etc., involved must be determined, where it is in controversy, on the basis of the facts peculiar to the case. Second, the area of effective competition in the known line of commerce must be charted by careful selection of the market area in which the seller operates, and to which the purchaser can practicably turn for supplies. In short, the threatened foreclosure of competition must be in relation to the market affected * * *.

"Third, and last, the competition foreclosed by the contract must be found to constitute a substantial share of the relevant market. That is to say, the opportunities for other traders to enter into or remain in that market must be significantly limited * * *.

"To determine substantiality in a given case, it is necessary to weigh the probable effect of the contract on the relevant area of effective competition, taking into account the relative strength of the parties, the proportionate volume

of commerce involved in relation to the total volume of commerce–in the relevant market area, and the probable immediate and future effects which preemption of that share of the market might have on effective competition therein." Tampa Electric Co. v. Nashville Co., 465 U.S. 320, 237, 328, 329.

The trial judge discussed the issue of whether the plaintiff had, in violation of Section 3 of the Clayton Act, set up an exclusive dealing arrangement. The court stated: "Plaintiff had the right to refuse to sell any of its products to General Electric Supply Company. It also had the right to take legitimate and effective steps to prevent distributors from purchasing dead ends from defendant, who was infringing Patent No. 4 by the sale of such devices. However, plaintiff transgressed the bounds of legality by requiring General Electric Supply Company to buy all of its products from plaintiff as a condition of purchasing any products from plaintiff."

The trial court essentially followed the guidelines set out by the Supreme Court as heretofore stated. With the plaintiff's power over the market there can be no doubt that the exclusive dealing arrangements could effectively foreclose competition in a substantial share of the line of commerce affected. The court below determined that "Plaintiff's real purpose was to foreclose competition by its licensees who were its only competitors." We agree that this use of an exclusive dealing arrangement violated Section 3 of the Clayton Act.

[11] On the basis of the finding of plaintiff's misuse of patent No. 4, it was properly denied relief for infringement by the defendant until it could show that it had wholly abandoned its improper practices and that their consequences had been fully dissipated. B.B. Chemical Co. v. Ellis, 314 U.S. 495, 498, 52 USPQ 33, 35.

A. Yes. I recall another thing that in the conference that we were to advise Northland of the—of any settlement, so there would be no—

Q. Now, was this something that you people wanted to do, or was this something that Anderson and Thompson wanted to do?

A. This is something that we people wanted to do, and something that you were aware of and understood by your own admission at the time.

Q. At that conference of June 30th, 1958, were any details of your exclusive sales agreement with Northland discussed?

A. No, they were not, other than the items mentioned at today's deposition, and items given in some interrogatories concerning the suit which was filed, the initial suit which was filed in '57.

Q. At that time was it the desire of you to submit this proposed agreement which I sent to Mr. Schapp in July of '58 to Northland?

A. We didn't submit it to Northland, we only advised them of the proceedings. And the reason that we advised them is that we feel that we are an upstanding, righteous company, and felt that Northland should be at least advised of some of the proceedings that we were going through.

Q. In other words, Northland actually never physically saw the agreement?

A. No. Northland might have seen it.

Q. In other words, a copy of it might have been sent to Northland?

A. Correct.

Q. And approximately when would this have been; shortly after I mailed it down to Mr. Schapp in July of 1958?

A. No, it was after.

Q. How far after?

A. Oh, it might have been after the agreement was signed, and so forth.

Q. Could it have been before the agreement was signed?

A. That the actual agreement was sent to them?

Q. Yes.

A. I don't think so, I don't think that's— No.

Q. In other words, they never saw a copy of the proposed agreement prior to the time it was actually signed?

A. Not of the actual agreement. They were probably— they were advised of it.

Q. Were they advised of specific details of it?

A. They were advised of some of the details.

Q. Did they discuss with you or Mr. Schapp any changes which they would have preferred in this proposed agreement?

A. No.

Q. Were they in favor of an agreement between yourself and Anderson and Thompson?

A. To my knowledge they were neither opposed or in favor of it when we wrote them.

Q. So it is your position that your discussions with Northland were a matter of business courtesy?

A. Correct.